

# **CALIFORNIA STATE LEGISLATURE**

**2001**

## **REVENUE AND TAXATION**

### **REFERENCE BOOK**

ASSEMBLYMEMBER ELLEN M. CORBETT, CHAIR

ASSEMBLY COMMITTEE ON  
REVENUE AND TAXATION

JULY 2001

## PREFACE

This Revenue and Taxation Reference Book is designed to answer some of the more commonly asked questions about California's tax structure. It is written with the general public in mind and gives a broad overview of most of California's major taxes, as well as summaries of some special features of the tax system. Many of the technical features and fine points of the law are excluded in an attempt to keep the material accessible to lay readers.

This Reference Book reflects California's tax law as of July 1, 2001. Generally, tax provisions that expired or were repealed prior to that date are not described.

Many features of the state tax system are described more than once in this Reference Book. For instance, certain income tax provisions affecting businesses are described both as a feature of the Personal Income Tax in Chapter 2B and in Chapter 2C, under the Bank and Corporation Tax. Readers should watch for cross-references within the text.

The Glossary in Chapter 8 provides short definitions of over 200 terms and abbreviations.

Thanks are due to the staff members of the Franchise Tax Board, the Board of Equalization, and other executive agencies who provided information, advice, and editorial comment during the preparation of this book. Legislative Counsel also provided assistance on various issues in this book. Their collective assistance ensures that the information included is both timely and accurate.

The Revenue and Taxation Reference Book has been prepared and maintained over the years by the staff of the Assembly Committee on Revenue and Taxation.

## TABLE OF CONTENTS

	Page
<b>PREFACE</b>	i
<b>TABLE OF CONTENTS</b>	ii
<b>TABLE OF TABLES</b>	iv
<b>CHAPTER 1. CALIFORNIA'S TAX SYSTEM</b>	
A. Overview of California's Tax Revenues	1
B. Basic Facts About Tax Legislation	2
C. Restrictions on the Taxing Power of the Legislature	8
D. Where to Get Information About State Taxes	14
<b>CHAPTER 2. OVERVIEW OF MAJOR TAXES AND REVENUE SOURCES</b>	
A. Introduction	16
B. Personal Income Tax	17
C. Bank and Corporation Tax	43
D. Determining the Income of Multistate and Multinational Corporations	63
E. Sales and Use Tax	73
<b>CHAPTER 3. OVERVIEW OF OTHER STATE TAXES AND REVENUE SOURCES</b>	
A. Alcoholic Beverage Tax and Liquor License Fees	85
B. Cigarette and Tobacco-Related Products Tax	89
C. Insurance Gross Premiums Tax	95
D. Estate Tax	98
E. Fuel Taxes	100
F. Motor Vehicle Fees	106
G. Timber Yield Tax	110
H. Private Railroad Car Tax	112
I. Emergency Telephone Users' Surcharge	114
J. Unemployment Insurance Tax	116
K. State Disability Insurance Tax	121
<b>CHAPTER 4. THE LOCAL PROPERTY TAX</b>	125
<b>CHAPTER 5. GOVERNMENT APPROPRIATIONS LIMIT: ARTICLE XIII B OF THE CONSTITUTION</b>	149

## **CHAPTER 6. SPECIAL FEATURES OF THE CALIFORNIA TAX SYSTEM**

A. Overview of Special State Tax Provisions Affecting Senior Citizens	157
B. Senior Citizens and Disabled Property Tax Assistance Program	161
C. Senior Citizens and Disabled Property Tax Postponement Program	166
D. Overview of Special State Tax Provisions for Homeowners	170
E. Homeowners' Exemption	173
F. Renters' Credit	176
G. Open Space and Agricultural Land Contracts	179
H. Mobilehome Taxation	182

## **CHAPTER 7. OVERVIEW OF CALIFORNIA'S TAX ADMINISTRATION** 187

## **CHAPTER 8. GLOSSARY OF TAX TERMINOLOGY** 197

## **TABLE OF TABLES**

Table 1	General Fund Revenues - Fiscal Year 1999-2000	1
Table 2	California Tax Rates for 2000	25
Table 3	California Tax Rates for 2001	26
Table 4	Federal Tax Rates for 2000	27
Table 5	Federal Tax Rates for 2001	28
Table 6	Computation of Alternative Minimum Tax for a Hypothetical Corporation	60
Table 7	Use of Unitary Apportionment Formula for a Hypothetical Corporation	68
Table 8	Existing Transactions and Use Taxes (As of 1-1-01)	78
Table 9	Property Tax Relief Programs	141
Table 10	Calculation of Senior Citizens Property Tax Assistance for Taxpayer with Total Household Income of \$6,600	163
Table 11	Senior Citizens Property Tax Assistance	164
Table 12	Tax Administration Responsibilities	195

